

CITY OF MELCHER-DALLAS

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020**

Table of Contents

	<u>Page</u>
Officials	4
Independent Accountant's Report on Applying Agreed-Upon Procedures	5-7
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 9
Bank Reconciliations	B 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C 9
Ordinances	D 9
Deposit Resolution	E 10
Check Retention	F 10
Local Option Sales Tax	G 10
Budget	H 10
Water Revenue Bonds	I 10
Sewer Revenue Bonds	J 11

City of Melcher-Dallas

City of Melcher-Dallas

Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Barb Van Wyk	Mayor	Jan 2020
Chris Heaton	Council Member	Jan 2022
Mark Herold	Council Member	Jan 2022
Terry Fisher	Council Member	Jan 2020
Brad Robbins	Council Member	Jan 2020
Dave Ernst	Council Member	Jan 2020
Jenny Knust	Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Barb Van Wyk	Mayor	Jan 2022
Chris Heaton	Council Member	Jan 2022
Mark Herold	Council Member	Jan 2022
Terry Fisher	Council Member	Jan 2024
Mark Moon	Council Member	Jan 2024
Seth Williams	Council Member	Jan 2024
Jenny Knust	Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Melcher-Dallas for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Melcher-Dallas management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.

5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Melcher-Dallas during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Faller, Kincheloe & Co, PLC".

Faller, Kincheloe & Co, PLC

November 2, 2020

Detailed Findings and Recommendations

CITY OF MELCHER-DALLAS
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals have control over each of the following areas for the City of Melcher-Dallas (City):

- (1) Cash – handling, reconciling and recording.
- (2) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparation and distribution.
- (6) Debt – recordkeeping, compliance and debt payment processing.
- (7) Utilities – billing, collecting, depositing and posting.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The checking, savings and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, the bank balances exceeded the book balances by \$148.98 and \$15.00, respectively.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations. The reviews should be documented by signing or initialing and dating the reconciliations.

- (D) Ordinances – Instances were noted where ordinances were not published as required by Chapter 380.7(3) of the Code of Iowa.

Recommendation – The City should implement procedures to ensure ordinances are published as required by Chapter 380.7(3) of the Code of Iowa.

CITY OF MELCHER-DALLAS
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (E) Deposit Resolution – The City’s deposit resolution did not specify all of the depositories and the maximum amount to be kept on deposit at each depository, as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should implement procedures to ensure compliance with Chapter 12C.2 of the Code of Iowa.

- (F) Check Retention – For part of the fiscal year, the backs of cancelled checks were not retained by the City, as required by Chapter 554D.114 of the Code of Iowa.

Recommendation – The City should retain the backs of the cancelled checks, as required by Chapter 554D.114 of the Code of Iowa.

- (G) Local Option Sales Tax – A prior year local option sales tax ballot required that the City spend its local option sales tax monies on street improvement projects. However, it does not appear the City has documented compliance with this provision.

Recommendation – The City should implement procedures to ensure compliance with the local option sales tax provisions.

- (H) Budget – The beginning budget numbers on budget amendment number 2 did not always agree to the ending budget numbers on budget amendment number 1.

Recommendation – The City should implement procedures to ensure the beginning budget numbers on the budget amendment agree to the ending budget numbers on the previous budget amendment.

- (I) Water Revenue Bonds – The water revenue bond resolutions require a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sinking account. For part of the year, we noted that the City did not properly fund the sinking account for the water revenue bonds.

Recommendation – The City should implement procedures to ensure the water revenue bond sinking account requirements are met.

CITY OF MELCHER-DALLAS
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

(J) Sewer Revenue Bonds – The following instances of non-compliance with the sewer revenue bond requirements were noted:

- The Sewer Revenue Bonds resolution requires the City “leave a balance of net revenues equal to at least 110% of the principal of and interest on all of the bonds and any other parity obligations due in such fiscal year, as they become due.”

The fiscal year 2020 net sewer operating income of \$73,045 is less than 110% of the \$69,695 of sewer revenue bond principal and interest due during fiscal year 2020.

- The sewer revenue bond resolutions require a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sinking account. For part of the year, we noted that the City did not properly fund the sinking account for the sewer revenue bonds.

Recommendation – The City should implement procedures to ensure the net revenue requirements and the sewer revenue bond sinking account requirements are met.